

BlueBay Global Sovereign Bond Fund (Canada)



Commentary as at June 30, 2025

Sovereign bonds posted modest returns after risks related to geopolitical turmoil subsided and the new U.S. administration backed off plans to impose tariffs that many investors had expected to fan inflation.

Financial markets plunged as the U.S. announced in early April that it would impose larger-than-expected tariffs on trade partners. The yield on the 30-year Treasury bond climbed beyond 5% at one point, the highest in several years, due to fears that slowing growth would be accompanied by high inflation and that U.S. finances would continue to deteriorate. Financial markets recovered after the negative market reaction led Trump to delay implementing certain tariffs in the hope of negotiating trade settlements.

Investors were concerned that European bond markets were susceptible to inflation given new commitments in Europe to boost government spending in part through higher defence expenditures. However, a gradual decline in inflation allowed the European Central Bank to cut its benchmark interest rate to 2% from 3% over the period, down from 4% at the recent peak.

Performance was also bolstered by gains in Mexico and South African bonds denominated in local currency as yields fell sharply with declining inflation. Romanian bonds aided returns on relief that a pro-European politician had won the recent presidential election, paving the way for greater fiscal reforms.

Given the level of uncertainty and complexity across markets, the portfolio manager is for now avoiding positions that would expose the portfolio to significant changes in interest rates. However, the Fund is positioned to benefit if U.S. longer-term rates rise more than short rates or short-term rates fall more than long rates – a steepening of the yield curve. This positioning is based in part on a view that interest rates and inflation could rise since Trump's fiscal plan is forecast to lead to a budget deficit exceeding 7% of GDP for the remainder of his term. In Europe, increased fiscal spending on defence and infrastructure is projected to boost economic growth, and with inflation likely staying below 2%, should enable the European Central Bank to cut rates to 1.75% by year-end.

The portfolio manager continues to have a positive view of Romania, whose 10-year bond offers 3 percentage points more of yield than benchmark German bunds. In Japan, the Fund is positioned to benefit if longer-term rates fall faster than short rates or shorter-term rates rise faster than long rates – a flattening of the yield curve.

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